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Candidate surname <i>StemUp Model Solution</i>		Other names
Centre Number	Candidate Number	

Pearson Edexcel Level 3 GCE

Time 2 hours

Paper reference **9EB0/02**

Economics B

Advanced

PAPER 2: Competing in the global economy

You do not need any other materials.

Total Marks

Instructions

- Use **black** ink or ball-point pen.
- **Fill in the boxes** at the top of this page with your name, centre number and candidate number.
- Answer **all** questions.
- Answer the questions in the spaces provided
– *there may be more space than you need.*

Information

- The total mark for this paper is 100.
- The marks for **each** question are shown in brackets
– *use this as a guide as to how much time to spend on each question.*
- Calculators may be used.

Advice

- Read each question carefully before you start to answer it.
- Try to answer every question.
- Check your answers if you have time at the end.

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Answer ALL questions.

SECTION A

Read the following extracts (A to D) before answering Question 1.

Write your answers in the spaces provided.

Extract A

Health and the macroeconomy

In 2017, the total Gross Domestic Product (GDP) of the United Kingdom (UK) was £2.12tn with a population of 66 million. Since then there has been an increase in homelessness, rough sleeping and in the number of food banks. Thousands of poor families now live in accommodation far away from their jobs and from the schools their children attend. Close to 40% of children were predicted to be living in poverty in 2021. Life expectancy has also fallen among the lowest income groups. According to human resource managers, many employers fail to see the link between employee wellbeing and productivity.

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Political parties seem indifferent to inequality, which has left large numbers of low income people experiencing poor living standards. This is not just true for the UK but for almost all the countries in the Organisation for Economic Co-operation and Development (OECD), albeit to different degrees. Fiscal policies in some countries have helped to reduce poverty and decrease inequality, while in others poverty has increased and so has inequality.

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(Source: adapted from <https://www.ineteconomics.org/research/research-papers/lessons-for-the-age-of-consequences-covid-19-and-the-macroeconomy> and <https://www.ohchr.org/EN/Issues/Poverty/Pages/CallforinputUK.aspx>)

Extract B

UK the 'poorest' country in northwest Europe in 2021

The UK has the lowest level of real GDP per capita of all countries in northwest Europe. House of Commons library data, published in June 2021, puts the UK behind 13 neighbouring European countries, including Ireland, Norway, Sweden, Finland, Denmark, Belgium, the Netherlands, Iceland, Switzerland, Luxembourg, Austria, France and Germany.

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According to the research, which uses data from the International Monetary Fund (IMF), these 13 countries have a higher GDP per capita than the UK and have had for the past 21 years. The data puts the UK's GDP per capita at £31 038 per person in 2021, placing it at the bottom, behind France on £32 622 per head, and Finland which has a rate of £34 187.

10

The UK also scores low on investment. According to the World Bank, in 2020, investment in Denmark was 23% of GDP whereas in the UK it was 17% of GDP. GDP growth was also higher in Denmark from 2016 to 2019 than in the UK. Low investment and productivity mean that income growth in the UK is likely to remain relatively low.

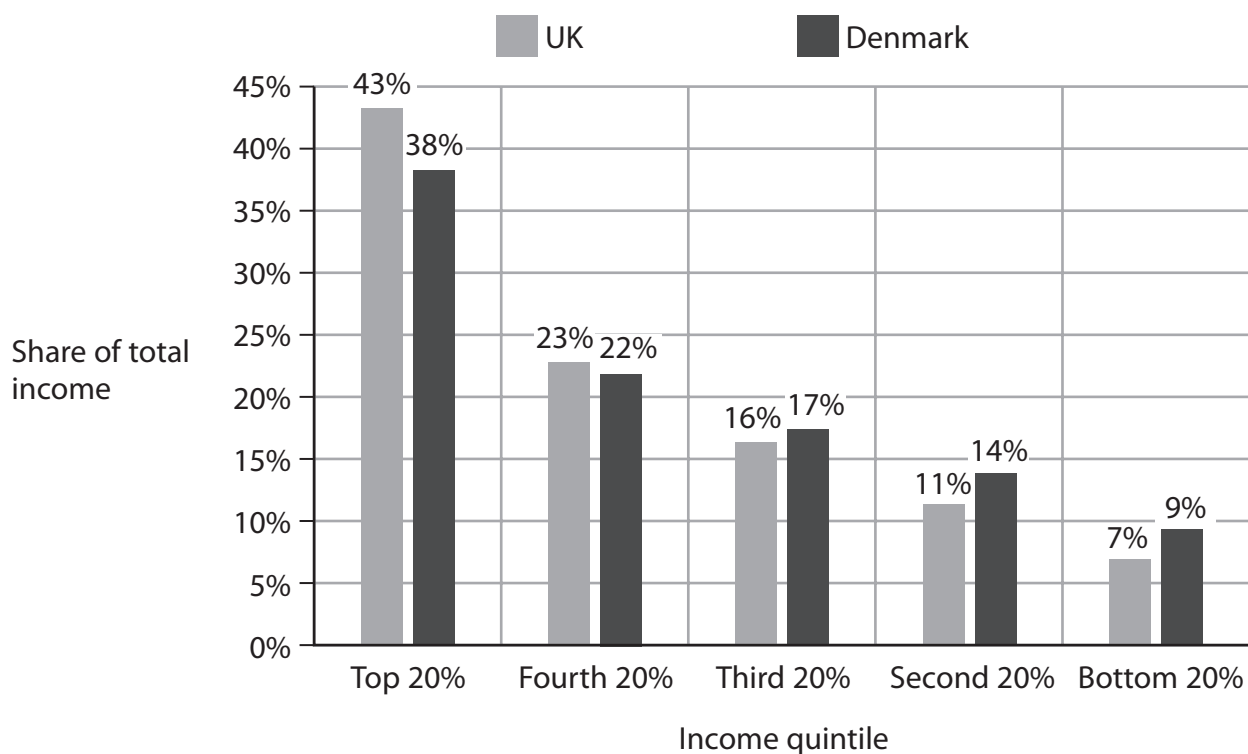
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(Source: adapted from <https://www.scotsman.com/news/politics/new-data-suggests-uk-poorest-country-in-north-west-europe-3288562>)



Extract C

Income quintile shares for the UK and Denmark in 2018



Human Development Index (HDI)

In 2018 the HDI for the UK was 0.928 and for Denmark the HDI was 0.939.

(Source: adapted from <https://www.equalitytrust.org.uk/scale-economic-inequality-uk> and <https://data.worldbank.org/country/denmark> and <http://hdr.undp.org/en/countries>)

Extract D

GINI coefficient and Index of labour productivity for the UK and Denmark 2015–2018

GINI coefficient				
	2015	2016	2017	2018
United Kingdom	0.33	0.35	0.35	0.36
Denmark	0.28	0.28	0.29	0.28

Index of labour productivity (2015=100)				
	2015	2016	2017	2018
United Kingdom	100.0	99.3	100.1	100.3
Denmark	100.0	101.2	103.1	105.4

(Source: adapted from <https://data.worldbank.org/indicator/SI.POV.GINI> and <https://data.oecd.org/lprdy/gdp-per-hour-worked.htm>)



- 1 (a) Using the data from Extract A, calculate to two decimal places the UK GDP per capita for 2017. You are advised to show your working.

(4)

$GDP \text{ per capita} = \text{total GDP} \div \text{population}$

$= £2.12tn \div 66 \text{ million}$

$= £2\,120\,000\,000\,000 \div 66\,000\,000$

$= £32\,121.2121...$

$UK \text{ GDP per capita in 2017} = £32\,121.21$



Sector	Average hourly wage
Catering	£9.62
Construction	£15.99
Education	£18.83
Finance and Insurance	£22.62
Manufacturing	£15.08

Figure 1

Figure 1 shows the average hourly wage for different sectors of the UK economy in 2021.

- (b) Calculate the median hourly wage for the service sector **only**. You are advised to show your workings.

(4)

The median is the middle value when the data set is sorted into order.

Service sector only: Catering £9.62, Education £18.83, Finance and Insurance £22.62

(construction and manufacturing are not services).

Sorted into ascending order: £9.62, £18.83, £22.62

The middle (2nd of 3) value is £18.83

Median hourly wage for the service sector = £18.83 per hour



- (c) Using the data in Extract D, calculate the difference in the percentage change in labour productivity for the UK and Denmark between 2015 and 2018. You are advised to show your working.

(4)

$$\text{Percentage change} = (\text{value in 2018} - \text{value in 2015}) \div \text{value in 2015} \times 100$$

$$\text{Denmark: } (105.4 - 100) \div 100 \times 100 = 5.4\%$$

$$\text{UK: } (100.3 - 100) \div 100 \times 100 = 0.3\%$$

$$\text{Difference} = 5.4\% - 0.3\% = 5.1\%$$

$$\text{Difference in percentage change} = 5.1 \text{ percentage points (5.1\%)}$$



(d) Analyse **two** factors influencing labour productivity in either Denmark or the UK.

(6)

Labour productivity is output per worker per hour. One factor influencing labour productivity is investment. Extract B shows investment in Denmark was 23% of GDP in 2020, compared with only 17% of GDP in the UK, suggesting Denmark has a higher quantity and quality of capital per worker. Workers with more, and more modern, machinery and technology can produce more output in the same time, so higher investment increases the efficiency of labour and raises productivity, which helps explain why Denmark's productivity index rose to 105.4 by 2018 while the UK's was only 100.3.

A second factor is income inequality. Extract C shows that in Denmark more income is distributed to the bottom 60% of earners ($9\% + 14\% + 17\% = 40\%$) than in the UK ($7\% + 11\% + 16\% = 34\%$), and Denmark's GINI coefficient is lower at 0.28 compared with 0.36. A more equal income distribution in Denmark may increase motivation among this 60% of earners, and allows more spending on health and education, so labour productivity rises.



P 7 0 8 8 4 A 0 7 2 8

- (e) Discuss the likely impact of low productivity on economic growth in the UK between 2015 and 2018.

(8)

Productivity measures the efficiency with which inputs are turned into outputs, and labour productivity measures output per worker in a given time period. Extract D shows UK productivity growth was very low between 2015 and 2018: the index rose from 100.0 to only 100.3, and actually fell to 99.3 in 2016, compared with a rise to 105.4 in Denmark. UK GDP growth and GDP per capita were also lower than in 13 neighbouring countries (Extract B).

Low productivity is associated with higher unit labour costs, since each worker produces less output. Higher unit costs shift SRAS to the left, reducing real output and economic growth. Low productivity is also associated with low investment in capital equipment and in human capital, and UK investment was only 17% of GDP. In the long term this reduces the productive potential of the economy, so LRAS grows slowly, limiting future growth. Furthermore, low productivity and rising costs reduce the international competitiveness of UK exports, so net exports and AD fall, further reducing growth. However, the impact on economic growth will depend upon the level of aggregate demand. In the short term, if AD increases, through an increase in consumption, government spending or exports, growth may be maintained, as there was spare capacity, and the UK did still grow between 2015 and 2018. Growth can also come from more workers being employed, not just higher output per worker. Overall, low productivity is likely to have a small effect on short-run growth, but a significant negative effect on long-run growth and living standards.



- (f) Assess the usefulness of the GINI coefficient as a measure of absolute and relative poverty.

(10)

The GINI coefficient is derived from the Lorenz curve and uses a scale of 0 to 1 to measure deviation from perfect income equality, where 0 is perfect equality and 1 is perfect inequality. In 2018 the UK's GINI coefficient was 0.36, compared with 0.28 in Denmark. Absolute poverty is where an individual is unable to meet basic needs such as food, shelter and clothing, while relative poverty is related to income inequality, for example having an income less than 60% of the median.

The GINI coefficient compares the actual distribution of income to perfect income equality, so it may be seen to represent levels of relative poverty: the higher the coefficient, the higher the relative and possibly absolute poverty. The UK's rising coefficient, from 0.33 in 2015 to 0.36 in 2018, is consistent with Extract A, which reports rising homelessness, food bank use and close to 40% of children predicted to be living in poverty. It is a single, easy to compare figure.

However, the GINI coefficient is a relative measure that fails to capture absolute differences in income. It is possible for a country's coefficient to rise due to increasing inequality while the number of people living in absolute poverty declines, because incomes at the bottom rise, just more slowly than at the top. A coefficient based on individual incomes also differs from one based on household incomes for the same country, so data can be misleading. The informal sector is excluded, so it may not accurately reflect absolute and relative poverty, especially in developing countries.

Unlike the HDI (UK 0.928 and Denmark 0.939), the GINI coefficient does not capture social benefits or government interventions that reduce absolute poverty, such as free healthcare and education. Demographic changes are not reflected either: a high ratio of the elderly or students produces a high coefficient although absolute poverty may be low. Two countries with very different Lorenz curves can also have the same coefficient.



Overall, the GINI coefficient is a useful indicator of relative poverty, but a poor measure of absolute poverty. A range of measures, such as the percentage of people living below the poverty line, the share of income of the bottom quintile and the HDI, is more useful than the GINI coefficient alone.



The UK has a legal minimum wage. Denmark has no legal minimum wage.

(g) Assess the impact of a minimum wage on income inequality.

(12)

A minimum wage is a price floor: a minimum price for labour enforced by law, so it is illegal for firms to pay workers below the legal minimum wage set by government. Its aim is to prevent people being paid very low levels of income and to raise living standards for the lowest income groups. By raising the wages of the lowest paid relative to higher earners, it should reduce income inequality and relative poverty, and increase the incentive to work rather than claim benefits.

However, Extract C suggests otherwise. The lowest income quintile in the UK, which has a minimum wage, receives 7% of total income, 2 percentage points less than in Denmark (9%), which has no minimum wage. When the bottom two quintiles are included the difference is 5 percentage points (18% in the UK compared with 23% in Denmark), and the UK's GINI coefficient of 0.36 is higher than Denmark's 0.28. This may indicate that a minimum wage does not necessarily reduce income inequality.

The impact will depend upon the level of the minimum wage. If it is low, well below the median wage, it will affect few workers and its impact on income inequality will be minimal. If the minimum wage is set above the market equilibrium wage, the quantity of labour supplied exceeds the quantity demanded, so the outcome might be unemployment in a sector such as catering, where wages are lowest (£9.62 an hour in Figure 1). Workers who lose their jobs receive lower incomes, which may increase inequality. Firms may also respond by cutting hours or raising prices, and there may be a growth in the unofficial economy where workers are paid less than the minimum wage, so the lowest paid are not protected.

Moreover, many of the poorest households have no one in work, such as pensioners and the unemployed, so a minimum wage does not raise their incomes at all. It may be



that Denmark has other effective policies to reduce income inequality in place, such as strong trade unions and collective bargaining that set wages by sector, and a highly progressive tax and benefit system. This suggests that fiscal policy may be more important than a minimum wage.

In conclusion, a minimum wage can reduce inequality between low paid and average workers, but its overall impact is limited. It depends on its level relative to the median wage, the elasticity of demand for labour and whether it is combined with progressive taxes and benefits.



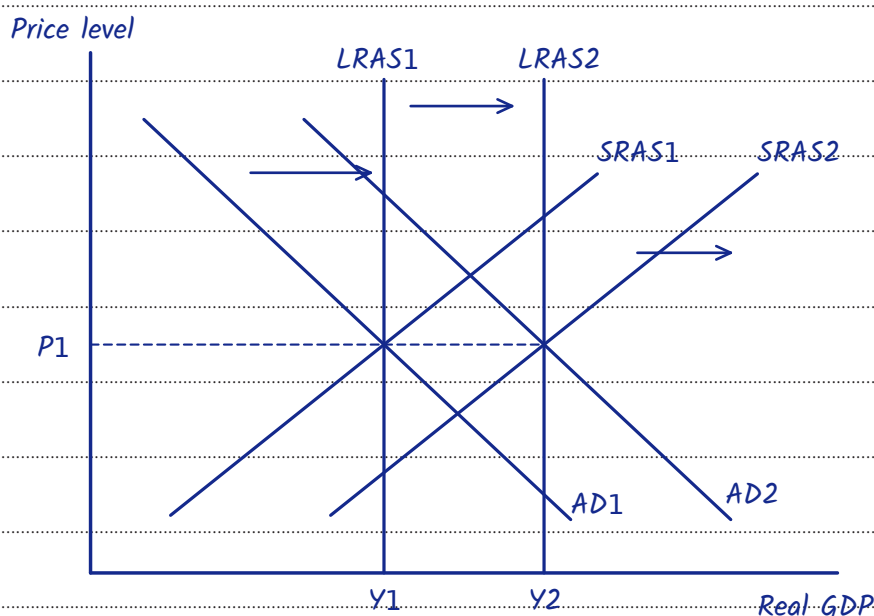
(h) With reference to Extract B and using a suitable diagram, assess the likely economic impact of the level of investment in Denmark.

(12)

Investment is spending by firms and government on the capital stock in an economy, such as machinery, factories and infrastructure. Extract B shows investment in Denmark was 23% of GDP in 2020, compared with 17% in the UK, and GDP growth was also higher in Denmark from 2016 to 2019. Investment (I) is a component of AD ($C + I + G + (X - M)$), so the higher growth in Denmark may have been caused by this investment. In the diagram, AD shifts right from AD1 to AD2, and through the multiplier effect, real output rises by more than the initial investment.

In the long run, investment also increases the productive potential of the economy, shifting LRAS from LRAS1 to LRAS2, so real output rises from Y1 to Y2 without a rise in the price level. Extract D supports this, as Denmark's productivity index rose to 105.4 by 2018 compared with 100.3 in the UK. Increased productivity resulting from investment reduces unit costs (SRAS1 to SRAS2), increasing international competitiveness, raising exports and reducing inflationary pressures. Higher real GDP per capita should also raise living standards.

However, if investment raises AD faster than the productive capacity of the economy,



higher growth might be associated with rising demand-pull inflation, which may lead to increasing inequality, as those on fixed incomes lose out. The impact of investment on growth will depend upon the size of the multiplier, which is smaller in an open economy like Denmark with a high propensity to import. The impact on employment depends on the extent to which investment in machinery replaces labour, which could increase structural unemployment. It also depends on the type of investment: investment in housing does less for productivity than investment in technology. Finally, investment takes time to raise capacity, so the benefits are long term.

Overall, Denmark's high level of investment is likely to have a significant positive impact, raising both actual and potential growth with low inflation, as shown by its higher productivity and growth than the UK.

(Total for Question 1 = 60 marks)

TOTAL FOR SECTION A = 60 MARKS



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PLEASE TURN OVER FOR QUESTION 2



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SECTION B

Read the following extracts (E and F) before answering Question 2.

Write your answer in the space provided.

Extract E

Offshoring by Nabisco

Nabisco is a US manufacturer of biscuits and snacks. In 2021, *Nabisco* factories in New Jersey and Atlanta were closed, resulting in the loss of about 1,000 jobs. While the firm denied that the jobs were offshored to Mexico, in 2016 hundreds of jobs were lost at the *Nabisco* factories in Chicago and Philadelphia.

5

"We can't compete with the Mexican workers," said a US trade union representative. "*Nabisco* just want to exploit cheap labour. If we were to accept all the working conditions, this job would turn into a job not even worth fighting for."

In 2016, the trade union launched a 'check the label' boycott campaign, asking consumers to refuse to buy *Nabisco* products that are made in Mexico. Workers have frequently reported finding *Nabisco* products for sale near their factories that were produced in Mexico.

10

(Source: adapted from <https://www.theguardian.com/us-news/2021/aug/23/nabisco-factory-workers-striking>)

Extract F

Hourly minimum wage for top manufacturing countries

Country	Hourly minimum wage (US\$)
China (with regional variations)	\$1.73
USA	\$7.25
Japan	\$7.80
Germany	\$10.87
South Korea	\$6.84
Italy	No minimum wage
France	\$11.66
United Kingdom	\$10.34
Mexico	\$1.05

(Source: adapted from <https://www.nationmaster.com/country-info/compare/China/United-States/Labor> & <https://stats.oecd.org/Index.aspx?DataSetCode=RMW>)



- 2 Evaluate the importance of wage costs in influencing the location of manufacturing firms.

(20)

Wage costs are the payments firms make to their workers and are often a major cost for manufacturing firms, especially in labour-intensive industries such as food processing, textiles and assembly. As wages differ between countries, firms seeking to maximise profit often try to minimise costs by locating production in low wage countries, a process known as offshoring.

Extract E shows that Nabisco, a US manufacturer of biscuits and snacks, has moved some of its production to Mexico over the last five years: hundreds of jobs were lost in Chicago and Philadelphia in 2016, and factories in New Jersey and Atlanta closed in 2021 with the loss of about 1,000 jobs. Extract F shows why: the minimum wage in Mexico is just \$1.05 an hour compared with \$7.25 in the USA, a saving of \$6.20 on hourly wage costs, so labour in Mexico costs around one seventh of US labour. As a trade union representative said, US workers 'can't compete with the Mexican workers'.

Lower wage costs reduce average costs of production, allowing a firm to either cut prices and gain market share, or keep prices the same and earn a higher profit margin.

Nabisco produces basic food products, which are likely to use low skilled employees, so wage costs are a large share of total costs and are therefore very important. Mexico also benefits from being next to the USA, with free access through the USMCA trade agreement, so transport costs to US consumers are low. Similarly, China, with a minimum wage of only \$1.73, has become the world's largest manufacturer by offering low labour costs.

However, savings in wage costs may not be the deciding factor when locating production, and other variables may be more important. Extract F shows that many of the top manufacturing countries have high minimum wages, such as Germany at \$10.87, France at \$11.66 and the UK at \$10.34. This suggests wage costs alone do



not determine location.

Firstly, what matters is unit labour cost, not the wage rate. Skills and the availability of a labour force may be more important than the wage rate in the manufacture of high technology products. Manufacturers such as Rolls Royce aero engines require highly skilled employees who attract high wages, and therefore will locate where an educated workforce is available, as high productivity offsets the higher wage.

Secondly, the infrastructure of the country, such as roads, ports, energy and telecommunications, may be more important if the product is to be successfully distributed. Poor infrastructure raises transport costs and delays, which may outweigh lower wage costs.

Thirdly, location in a trade bloc matters. Germany has free access to the EU single market and its large consumer market of around 450 million people, avoiding tariffs and allowing firms to be close to customers. Government incentives also influence location: the USA and EU offer a range of government subsidies and tax breaks for manufacturing firms, which can reduce costs by more than lower wages.

Fourthly, the ease of doing business is important. South Korea has a business environment which promotes and rewards enterprise, while Mexico has relatively low levels of environmental regulation, reducing compliance costs. Political stability also matters: the USA and EU have relatively stable political systems and legal protection of property rights, which create some level of certainty for firms looking to invest in long-term manufacturing plants.

In addition, the advantage of low wages may not last. Costs of production can increase as wages are bid upwards by labour and skills shortages, as has happened in China, where regional wages have risen rapidly, leading some firms to move to Vietnam or Bangladesh or to reshore production. There are also reputational risks: the 'check the label' boycott campaign launched by the trade union in 2016 asked consumers to refuse



to buy Nabisco products made in Mexico, which could reduce sales and offset the cost savings. Exchange rates, automation and the cost of transport also affect the overall gain from low wages, and automation reduces the share of labour in total costs.

In conclusion, wage costs are very important in influencing the location of manufacturing firms that make simple, labour-intensive, low value products, such as Nabisco's biscuits, where the \$6.20 hourly saving in Mexico is significant. However, for high value, capital-intensive or high technology manufacturing, factors such as skills, productivity, infrastructure, access to markets and political stability are more important. Overall, the importance of wage costs depends on the nature of the product, the share of labour in total costs and the productivity of the workforce, so firms consider unit costs and market access rather than wages alone.

(Total for Question 2 = 20 marks)

TOTAL FOR SECTION B = 20 MARKS



SECTION C

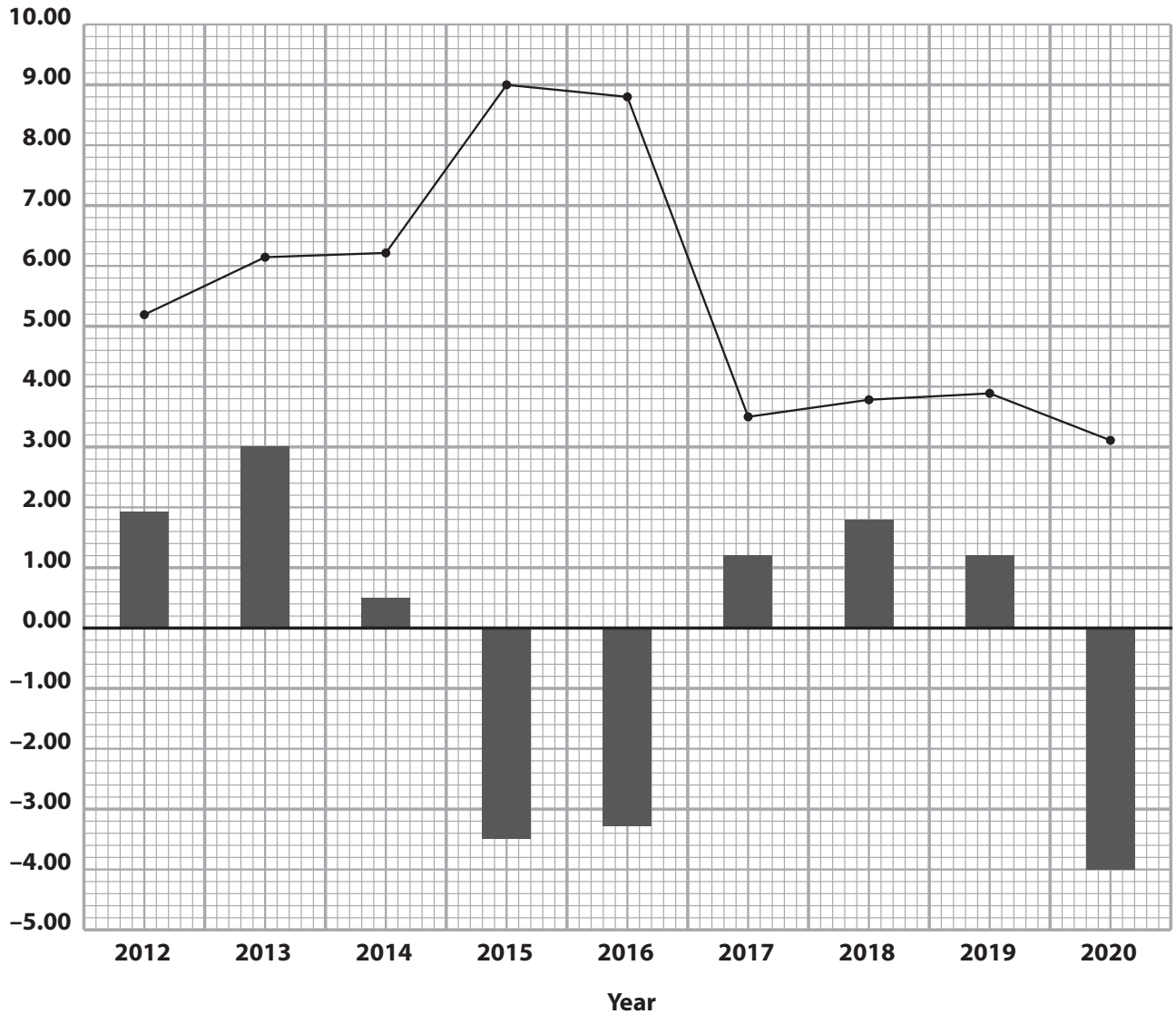
Read the following extracts (G to I) before answering Question 3.

Write your answer in the space provided.

Extract G

Economic growth and inflation in Brazil, 2012–2020

Annual %
change



■ GDP growth (annual % change)

—●— inflation, consumer price index (annual % change)

(Source: adapted from <https://data.worldbank.org/country/BR>)

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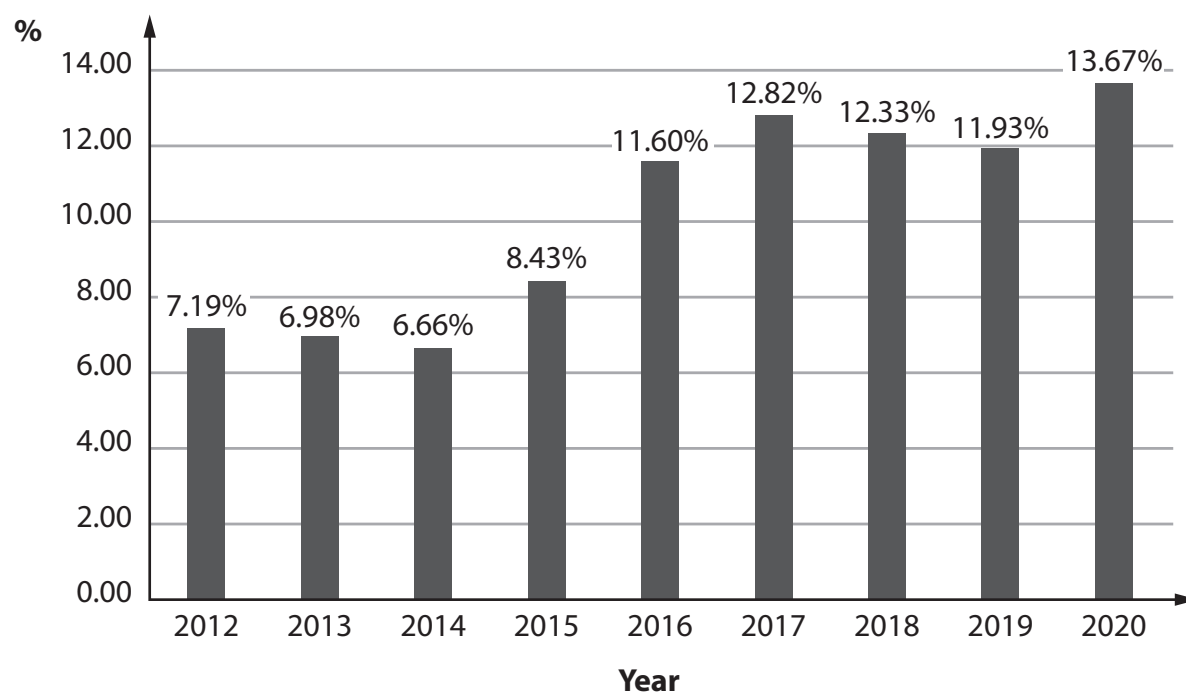
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Extract H

Unemployment (% of total labour force) in Brazil, 2012–2020



(Source: adapted from <https://data.worldbank.org/country/BR>)



Extract I**The economy of Brazil**

Brazil is the world's thirteenth largest economy. The country is still working on rebuilding itself after the 2015–2016 recession when the economy contracted by almost 7%. Since then, Brazil has not been able to grow at the same pace as it did before the recession. South America's largest economy is now expected to grow at a slower pace in the coming years, with the International Monetary Fund (IMF) predicting Gross Domestic Product (GDP) growth of 1.5% in 2022 and 2% in 2023.

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While the Brazilian Government claims the economy is recovering, it continues to follow fiscal policies aimed at reducing the fiscal deficit and government debt. The unemployment rate in Brazil continues to grow and the country has one of the highest levels of inequality in the world. Even though Brazil has lifted 28 million people out of absolute poverty in the last 15 years, 10% of the population still live in absolute poverty, while the country's richest 5% have the same income as the remaining 95% of the population.

10

Brazil has abundant natural resources and a relatively diversified economy. The country is the world's largest producer of coffee, sugar cane and oranges, and is one of the world's largest producers of soya. With forests covering half of the country and the world's largest rainforest, Brazil is the world's fourth largest exporter of timber. Additionally, Brazil is home to the world's largest commercial livestock herds. Brazil also attracts many multi-nationals in the food and bio-fuels industries. It is the world's second largest exporter of iron and one of the world's main producers of aluminium and coal. Many of the world's large automobile manufacturers have set up factories in Brazil. The industrial sector contributes 17.6% to the GDP and employs 19.9% of the population.

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The service sector represents 62.9% of Brazilian GDP and employs 70.9% of the active workforce. In recent years, the country has developed the production of high value-added services, especially in the fields of aeronautics and telecommunications. Tourism has grown in recent years, making it an important segment of this sector.

25

(Source: adapted from <https://international.groupecreditagricole.com/en/international-support/brazil/economic-overviews>)



- 3 Evaluate the impact of low or negative economic growth upon a developing economy such as Brazil.

(20)

Economic growth is an increase in real GDP. Extract G shows that Brazil has experienced low or negative growth: its highest growth was only around 3% in 2013, the economy contracted by around 3.5% in both 2015 and 2016, a recession in which it shrank by almost 7% (Extract I), growth was only around 1% to 2% from 2017 to 2019, and it fell by around 4% in 2020. The IMF predicts growth of only 1.5% in 2022.

Slower or negative growth means lower real GDP per capita, especially as Brazil's population is growing. This may increase absolute poverty and inequality, creating lower living standards. 10% of the population still live in absolute poverty, and Brazil has one of the highest levels of inequality in the world, with the richest 5% having the same income as the remaining 95%. Lower growth may also worsen development outcomes, as less is spent on health and education, causing a fall in Brazil's HDI ranking.

Increases in unemployment may also occur with lower or negative growth, because the demand for labour is a derived demand. Extract H shows unemployment rose from 6.66% in 2014 to 12.82% in 2017 and 13.67% in 2020. If such unemployment is sustained, workers lose skills and become long-term unemployed, so income inequality may increase where it is already very high (Extract I). This also reduces the productive potential of the economy, a hysteresis effect.

Lower or negative economic growth decreases tax revenues, as incomes and spending fall, and increases government spending on welfare benefits through automatic stabilisers. This may increase the budget deficit and government debt (Extract I). As the Brazilian Government follows fiscal policies aimed at reducing the deficit, it may have to cut spending on infrastructure and public services, which reduces AD further and limits development.



Slower or negative growth may also postpone or permanently reduce new investment, as business confidence falls, for example by automobile manufacturers who have set up factories in Brazil (Extract 1). Foreign direct investment projects may fall, especially if Brazil is the target market, as in the food industry. Lower investment reduces the growth of the capital stock, so long-run growth and productivity are also reduced, which may trap Brazil in a cycle of low growth.

However, low or negative growth can have some benefits. Lower or negative rates of GDP growth can bring about desirable environmental benefits such as reduced deforestation, which is important as Brazil has the world's largest rainforest and is the fourth largest exporter of timber (Extract 1). Slower growth reduces the risk of unsustainable extraction of renewable resources such as timber, and reduces the long-run depletion of non-renewable natural resources such as iron and coal, so it may support more sustainable development.

Slower-growing AD may also reduce demand-pull and cost-push inflation, which protects the real incomes of the poor. However, Extract 6 shows that inflation was around 9% in 2015 and 8.7% in 2016 although the economy was in recession, suggesting stagflation caused by supply-side factors such as a falling currency, so low growth does not always bring low inflation. Inflation then fell to around 3% to 4% from 2017.

Slower or negative growth may also reduce the current account deficit, as falling incomes reduce the demand for imports, especially for luxury and manufactured goods. However, as a commodity exporter of coffee, sugar cane, soya and iron, Brazil's exports depend more on world demand and commodity prices than on its own growth.

The significance of the impact depends on several factors. Firstly, it depends on how long low growth lasts: a short recession may have limited long-term effects, but Brazil has not been able to grow at the same pace since 2016, so the effects are cumulative. Secondly, it depends on government policy: if the government provides targeted welfare,



as it did when it lifted 28 million people out of absolute poverty in the last 15 years, the impact on the poorest can be reduced. Thirdly, it depends on the structure of the economy. Brazil has abundant natural resources and a relatively diversified economy, with services making up 62.9% of GDP and growing high value-added sectors such as aeronautics, telecommunications and tourism, which may help it recover. Finally, the impact is greater on a developing economy than a developed one, because many people live close to the poverty line and there is less of a safety net.

In conclusion, low or negative growth has a significant negative impact on a developing economy such as Brazil, mainly through higher unemployment, rising poverty and inequality, larger budget deficits and lower investment, which undermine development.

Although there may be some environmental benefits and lower inflation, these are outweighed by the costs for a country where 10% of people live in absolute poverty.

The size of the impact depends on its duration and the policy response, but sustained low growth is likely to reverse some of Brazil's recent development gains.

(Total for Question 3 = 20 marks)

TOTAL FOR SECTION C = 20 MARKS

TOTAL FOR PAPER = 100 MARKS



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